

**Material for NSC BRIEFING
WESTERN DIVISION**

26 July 1954

CURRENT SITUATION IN ICELAND

I. Two basic factors determine Iceland's foreign relations.

A. Iceland's jealous concern over its sovereignty.

1. Iceland gained final independence only in 1944.
2. The 147,000 Icelanders are fiercely determined to protect their culture against foreign influence.
 - a. They see the US base as the chief threat to their national culture.

B. Iceland's great dependence on foreign trade.

(See Appendix I: Data on Iceland's Foreign Trade)

1. Iceland has largest per capita foreign trade of any Organization for European Economic Cooperation (OEEC)* country.
2. Between 90 and 95 percent of Iceland's foreign trade earnings come from fish and fish exports.

(See Appendix II: Data on Iceland's Fishing Industry)

II. Dispute with Britain Upsets Normal Fish Exports.

A. Territorial waters dispute causes boycott of Iceland's fish by British interests.

1. In March 1952 Iceland proclaimed its territorial waters would henceforth be defined by a line four nautical miles out from the farthest points of the coast, islands, and rocks. All foreign fishing activity forbidden inside line drawn from headland to headland.

* The OEEC countries are: Austria, The Belgium-Luxembourg Economic Union, Denmark, France, Western Germany, Greece, Iceland, Ireland, Italy, The Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom.

- a. This area includes Faxa Bay off the southwest coast, hitherto an important fishery for British fishermen.
2. In November 1952 British fishing interests retaliated by refusing to allow Icelandic catches of fresh-fish-on-ice to be landed in British ports. This ban is still largely in effect.
3. As a result, in 1953 Iceland exported to Britain only \$100,000 worth of fresh fish, contrasting with \$3,800,000 worth in 1951.
 - a. 1951 figure represented 87 percent of Iceland's exports of this product.
4. In March 1953, British government proposed referral of Faxa Bay dispute to International Court.
 - a. Iceland agreed, provided Britain recognized four-mile limit and lifted boycott while Court considering the dispute.
 - b. Britain rejected this in May, and there essentially the matter rested.
- B. Economic impact of British boycott mitigated by various factors:
 1. During 1953, Iceland found new markets:
 - a. In Nigeria for salt and stock (dried) fish processed from the fresh fish which were formerly sold to the United Kingdom.
 - b. Iceland also expanded its exports to West Germany, Finland, Portugal, Spain, and Sweden. (On the

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Greece, and Denmark contracted.)

2. During 1953, the United States paid \$4,250,000 in "special resources" to the European Payments Union to balance Iceland's EPU deficit. Nevertheless, Iceland's EPU deficit increased.
3. Spending by the US Iceland Defense Force rose to \$13,500,000 during 1953. In 1952 such spending totalled \$3,700,000. (See Appendix III: US Aid to Iceland)
4. On 1 August 1953, Iceland signed an agreement with the USSR, renewing trade relations which had been terminated in 1945.

III. Iceland's Relations with the USSR.

A. Past pattern of trade relations.

1. In 1945, nil
2. In 1947, USSR took almost 20 percent of Iceland's exports.
3. In 1949-52, USSR took no Icelandic exports.

B. The 1953/54 trade agreement provided:

1. USSR would take about 25 percent of Iceland's exports, or about \$9,800,000 worth, over following 12 months.
 - a. Exports in last five months of 1953 actually amounted to \$5,500,000.
2. USSR agreed to take - at prices not specified:
 - 21,000 tons of frozen fish fillets
 - 10,000 tons of salted herring

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3. USSR agreed to furnish Iceland's total annual requirements of 200,000 tons of liquid fuels (except for aviation gasoline), cement, a substantial part of its grain, and considerable amounts of pipe and steel. For these commodities Iceland normally has to spend dollars and sterling.
- C. In June 1954, Iceland and the Soviet Union renewed their trade agreement for the period from 1 June 1954 to 31 December 1955.
 1. Under this new agreement the USSR is to buy over an 18 months period about 20 percent of Iceland's total fish catch, specifically:
 - 35,000 tons of frozen fish fillets
 - 21,000 tons of salted herring
 - 3,000 tons of frozen herring
 2. The USSR is reportedly to increase its shipments of oil, grain and metal products to Iceland.
 - a. Iceland has not yet agreed to delivery of oil by Soviet tankers.
- D. Increased Icelandic trade with the rest of the Orbit is also in prospect.
 1. An agreement with Rumania extending through 1955 and involving oil, cereals and cement but of no specific quotas, was signed in April.
- E. Meanwhile, the USSR has cultivated cultural relations with Iceland assiduously.
 1. Troupes of Soviet artists have toured Iceland.

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2. Communists have used their presence to emphasize that the Soviet Union makes no military demands on Iceland.

3. Many Icelanders are convinced that East-West tensions have eased substantially.

IV. Iceland's relations with the US.

A. The large US base established under the bilateral defense agreement of 1951 inflamed the anti foreign sentiment of Icelandic nationalists.

B. After six months of negotiations, the United States and Iceland agreed in May 1954 to revise the details of the 1951 agreement. Major points:

1. The ceiling on American troops to be allowed on the island was raised from 3,900 to 6,200, and the United States is to construct new port facilities needed for logistic support.

2. The Icelanders are to assume as far as possible the defense construction activities.

3. The movements of American personnel outside agreed areas are to be further limited.

C. On 7 July Iceland received with great pleasure the news that President Eisenhower had disapproved the US Tariff Commission's recommendations for restricted quotas and increased duties on frozen fish fillets.

D. On 10 July, Iceland's foreign minister warned the American charge of "unforeseen consequences" if the United States

took the lead in the next United Nations General Assembly

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in opposing Iceland's position on the necessity of protecting fishing rights over its continental shelf.

1. Traditionally the United States has adhered in principle to the 3 mile limit of territorial waters and opposed the inclusion of large bays within territorial waters.

a. For political reasons, however, the United States has refrained from supporting Britain, in the latter's specific dispute with Iceland.

b. The General Assembly's International Law Commission issued in 1953, as part of a larger long-term codification of the law of the high seas and territorial waters, a draft report on the continental shelf and fisheries.

i. Iceland then successfully opposed the Assembly's considering this draft until the whole report should be completed.

ii. The American position has been that the General Assembly should consider the section of the report already completed.

2. The Icelandic foreign minister told the American charge that the prime minister was "particularly upset" by the American desire to have the General Assembly discuss the issue of the continental shelf and fisheries, and that both government parties (Conservatives and Progressives) saw eye-to-eye on this issue.

a. Trawler owners are, in fact, leading members of

the Conservative Party, the major element in the government coalition and staunchest supporter of NATO and the Defense Agreement.

E. A separate matter of detail currently under discussion between the US and Iceland is the proposed delivery of oil by Soviet or Soviet-chartered tankers.

1. The Icelandic reserve storage tanks are at Hvalfjörður, which is within area agreed on for American use.
2. The US has expressed strong opposition to Soviet oil deliveries at Hvalfjörður, but has indicated reluctant acceptance of Reykjavik.
3. The Icelandic Foreign Minister told the American charge on 24 July that the Icelandic government had not yet reached a decision on Hvalfjörður deliveries.